

Mises Contra Marx

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If asked to name the foremost critic of Marxism, most economists sympathetic to the free market would name Eugen von Böhm-Bawerk, who in his treatise *Capital and Interest* and his separate brochure *Karl Marx and the Close of his System* demolished the labor theory of value, the linchpin of Marxist economics.

But the labor theory is but one part of Marxism: what about the remainder of the system? Here one must turn to the work of Böhm-Bawerk's greatest student, Ludwig von Mises, whose devastating analysis of Marxism is of surpassing excellence. His contribution to the critique of Marxism is principally to be found in two of his books: *Socialism* and *Theory and History*. (Both are available from the Mises Institute.)

The *Communist Manifesto* (1848) famously states: "The history of all hitherto existing society is the history of class struggles." Each social system, in the Marxist view, is characterized by a different variety of class conflict. In the capitalist system, of course, the protracted conflict finds capitalists opposed to proletarians. In the course of the social struggle between the classes, members or friends of each class elaborate theories of various sorts to advance the interests of that class. These theories, whatever they may claim, do not stem from the search for objective truth. Like all "ideological" thought, economic, social, and political theories reflect class interest.

Mises, more forcefully than any other critic of Marx, at once penetrates to the essence of this fallacious view. If all thought about social and economic matters is determined by class position, what about the Marxist system itself? If, as Marx proudly proclaimed, he aimed at providing a science for the working

class, why should any of his views be accepted as true? Mises rightly notes that Marx's view is self-refuting: if all social thought is ideological, then *this* proposition is itself ideological and the grounds for believing it have been undercut. In his *Theories of Surplus Value*, Marx cannot contain his sneering at the "apologetics" of various bourgeois economists. He did not realize that in his constant jibes at the class bias of his fellow economists, he was but digging the grave of his own giant work of propaganda on behalf of the proletariat.

Mises never tired of emphasizing a theme he expresses tersely in *Liberalism*: "Man has only one tool with which to fight error: reason." By "reason," he meant a logical procedure claiming universal validity. To deny the power of reason is in effect to refute oneself. If reason must be subordinated to some other faculty, whether class interest, hermeneutic understanding, or whatever nonrational intellectual fad one pleases, the result can be nothing other than stultifying. Without logic, what *reason* can be given for the acceptance of the postulated account?

Mises did not confine his assault on Marxism to the essential, yet arcane, area of epistemology. He also analyzed in detail the principal themes of Marx's interpretation of history. According to Marx, the key to history lies in the forces of production. (Very roughly, the forces of production of a society consist of the society's technology.) These forces, throughout history, have a constant tendency to develop. As they do so, they compel changes in the relations of production, i.e., the economic and social system existing in a particular society. At one time, e.g., feudalism was best adapted to develop the forces of production. When it ceased to be the most efficient system, capitalism replaced it, breaking what Marx called the "fetters" on production imposed by the manorial economy of feudalism. In turn, at the dictate of the forces of production, capitalism will be replaced by socialism, a system Marx anticipated would be enormously more productive than its predecessor.

Mises in *Theory and History* posed a simple query that proved lethal to the alleged "science of historical materialism." As just explained, growth of the forces of production is supposed to explain all else of importance. But what determines this very growth? As Mises often reminds us, only individuals act: classes, "forces of production," "relations of production," etc., are in themselves but abstractions. Apart from the action of human beings, they are void and powerless. Like Hegel's *Geist* (Spirit), Marx's forces of production are a self-developing phenomenon governing human will. Marx never bothers to explain how such forces, in themselves the *effects* of human action, can exclusively determine all important human action.

Once one has grasped the point that it is individuals, not the forces of production, who act, the entire Marxist scheme of historical evolution falls by the wayside. If human beings create by their acts the forces of production, rather than the forces determining these acts, then nothing is inevitable about the transition from one economic system to another. Such changes will take place as persons act to create them, no more and no less. If one objects that there are laws determining human action, perhaps the objector would be good enough to produce them for inspection. That the results of what persons create may not be to their liking is another matter.

Marxism, as the Stalinist "philosopher" M. B. Mitin liked to declare portentously, is "a guide to action." And the action the Marxists have in mind is of course the replacement of capitalism by socialism. In a famous passage in Volume III of *Capital*, Marx foresees a rosy day ahead under the blessings of socialism in which people will be able to devote most of their time to leisure. Work for mere survival will become a thing of past.

Such is the Marxist promise: the reality, Mises demonstrated, was quite another matter. In his argument, Mises did not principally rely on the results of attempting to turn social-

ism from idea to reality in Soviet Russia. Instead, as those acquainted with his praxeological method will have anticipated, Mises offered proof that socialism was of its nature impossible.

He presented his argument in a famous article appearing in 1920 that, with much elaboration, was incorporated into his great work *Socialism* (1922). Characteristic of Mises, his point is in essence a simple one: the great Austrian economist had an unerring instinct for the heart of any issue of theory he considered. Given a list of goods to produce, whether those desired by the members of society in their roles as consumers or those on an agenda concocted by a dictator, any developed economy must have a way to decide how to employ its resources in the best possible way to produce the desired goods.

Under capitalism, this challenge receives a response fully adequate to the difficulty it poses. Resources, whether land, labor, or capital, exist subject to ownership by individuals. These persons, in a fashion elaborated in minute detail in Mises's *Human Action* and Murray N. Rothbard's *Man, Economy, and State*, will trade in markets. Doing so will enable them to price production goods according to their most efficient use in securing the desired consumption goals.

The details of the process cannot be here elaborated, and in any event, no one seriously denies that the free market *can* perform the task of economic calculation I have briefly described. The gravamen of Mises's indictment of socialism, and the controversial aspect of his argument, is his contention that *only* capitalism can solve the calculation problem. Socialism in particular cannot.

Again without descending into detail, the main point of Mises's reasoning can be quickly comprehended. Socialism by definition consists of the centralized direction of the economy, its main means of production being under "public," i.e. government, ownership. How can a centralized system, in the absence of markets, decide whether a use of resources to

produce a good is more efficient than a rival use? Any “prices” the director of the economy imposes will be arbitrary and of no value for genuine calculation. (One technicality ought to be mentioned, lest the argument be misunderstood: it is production goods, not first-order or consumption goods, that Mises maintains a socialist system lacks the means to calculate.)

We can at once see how Mises’s argument administers the *coup de grace* to Marxism. That system claims that socialism will arrive because the development of the forces of production will demand its institution. Even if one were to neglect Mises’s point, that the growth of the forces of production is *not* inevitable, one can see that Marx’s view is laughably inept. It is capitalism that is not only the most efficient economic system, but the *only* economic system that is efficient. If the forces of production did, *per impossible* inevitably grow of their own accord, it is not socialism but capitalism that they would establish.

Continuing his assault on Marxism, Mises explored Marx’s reasons for not considering the problem of efficiency. Here Mises’s answer admits of no dispute. Marx said nothing about the calculation problem because he devoted virtually no attention whatever to the economic institutions of socialism. To do so, he thought, would be to establish “blueprints” for the future, in the style of the Utopian socialists he was quick to scorn. With complete intellectual irresponsibility, he preached the overthrow of the intricate economy of capitalism he himself acknowledged as the most productive in history in order to establish a scheme whose institutions he had not bothered to analyze.

When one considers the responses of Mises’s socialist critics, however, perhaps Marx’s policy of averting his eyes from the problems of socialism was wiser than he knew. Mises had little difficulty in refuting all the attempted socialist solutions of his calculation problem. Some looked to mathematics: a system of simultaneous equations would enable the neces-

sary prices to be discovered. How, in a regime of constant change, these equations were to operate, the proponents of this approach left unsaid. The most popular response to Mises, though, lay elsewhere. The Polish economist Oskar Lange, long resident in the United States until, following the Second World War, the blandishments of Communist Poland proved too much for him to resist, claimed that a socialist economy need not abandon the market. Though to some “market socialism” has little more sense than a “square circle,” Lange was of course not among them. But his proposal, though original, fared no better than the others. Mises subjected it to withering attack, the details of which I leave the interested reader to explore in Mises’s work. In particular, his illuminating discussion of his critics in *Human Action* should be consulted.

Mises exposed several irremediable and crucial errors in Marxism. A reader of his criticism cannot help but apply to Marxism the well-known line from “Ozymandias”: “Round the decay of that colossal wreck, . . . /The lone and level sands stretch far away.”

Keynesian Myths

Murray N. Rothbard

Inflation and Idle Capacity

The Keynesians have been caught short again. In the early and the late 1970s, the wind was taken out of their sails by the arrival of inflationary recession, a phenomenon which they not only failed to predict, but whose very existence violates the fundamental tenets of the Keynesian system. Since then, the Keynesians have lost their old invincible arro-